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EDITORIAL DEPARTMENT NOTE

Cost accounting has been referred to often as "a tool of management." But too often it has been thought of as a simple one-purpose tool which, when once set up, would continue to grind out figures to meet all of management's needs. Until recently too little consideration has been given to the various uses which management makes of cost data and of the types of cost data needed to meet these needs. The article by Edward J. Hanley in this issue of the *Bulletin* should be helpful in stimulating a greater appreciation of the need for different costs for different purposes. Mr. Hanley is Secretary and Treasurer of the Allegheny Ludlum Steel Corp. and has played an active part in N. A. C. A. affairs for a number of years. A Past President of two Chapters, Albany and Pittsburgh, he served on the National Board for a three-year term from 1935 to 1938, and has recently been elected to an additional three-year term. He is also a member of the Association's Committee on Research.

"Accounting Service to Management" was selected by the Birmingham Chapter as the theme for their meetings during the current year. At their September meeting, George W. Rooney, Vice President-Comptroller of the United States Steel Corp. of Delaware, presented the opening address in the series. Because of its general interest to all accountants, this address is being published in this issue of the *Bulletin*. Mr. Rooney began his accounting career as a public accountant with the Scott-Boschert Co. after a period of service in World War I. In 1927 he joined the Oil Well Supply Co. as Comptroller, serving in this capacity until 1938 when the Oil Well Supply Co. became a part of the U. S. Steel Corp. After two years as Comptroller of the National Tube Co., Mr. Rooney was made Comptroller of the U. S. Steel Corp. of Delaware in 1940.

Our third article describes an interesting application of punch card equipment to the billing of customers of an electric utility. The author of this article, John D. Elliott, is Assistant Supervisor of the Customers' Accounts Division of The Detroit Edison Company. He came to this Company while attending Wayne University in 1933. Mr. Elliott received further accounting training at the Detroit Institute of Technology. In addition to billing, the Customers' Accounts Division compiles and reports data, maintains customers' records, furnishes billing information, and balances and reports accounts receivable.

Articles published in the *Bulletin* present many different viewpoints. In publishing them the Association is not sponsoring the view expressed, but is endeavoring to provide for its members material which will be helpful and stimulating. Constructive comments are welcomed and will be published in the Forum Section of the *Bulletin*.

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NATIONAL ASSOCIATION OF
COST ACCOUNTANTS

NOVEMBER 1, 1945

COSTS FOR SPECIAL PURPOSES

By Edward J. Hanley, Secretary and Treasurer,
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ABOUT ten years ago at one of the national conferences of the N. A. C. A., the speaker told the following very apt story to illustrate a point. He cited the story of a candidate for the position of office boy, who was being tested to determine his aptitude and ability. The boy was given a long column of figures to add, after which he sat down at a desk and worked industriously for perhaps ten minutes. He then returned to his prospective boss, approaching him with a shining countenance, and announced that he had added the column ten times. The gentleman on the hiring end was quite pleased at this show of industriousness, but before he could utter a word of commendation the boy added, "and I got ten different answers."

This story was told, of course, to focus attention upon cost systems that give these kinds of answers and, unfortunately, the story is still apt as it relates to many cost systems in use in 1945.

It does not follow, however, that there is a single answer to all questions that may be asked of a cost department, and this paper is largely a plea for a thoughtful analysis of each problem.

Aims of Cost Systems

It is generally agreed that a good cost accounting plan must do three things:

1. Aid in establishing selling prices.
2. Furnish information useful for the control of manufacturing processes.
3. Provide a means of valuing the inventory accounts.

Depending upon the factor most heavily emphasized, any system probably does one of these three things better than it does either of the other two. Whatever the cost plan and whatever its objective, however, anyone who puts cost figures together knows that the figures finally furnished as cost are based upon innumerable, more or less reasonable assumptions.

Criticism of Conventional Systems

The main criticism that might be made of most cost figures which satisfy the conventional three requirements is that they pertain to actual costs as contrasted with what the product should cost. They are retrospective and not prospective. For example, direct material may be included at average cost rather than current purchase price, though the last-in, first-out method of handling inventories tends to make this criticism less valid. Such costs probably include the average cost of production as between two or more facilities where one is a lower cost unit than the other, but where both necessarily have to be used to produce normal volume, and many other similar differences might be mentioned.

How often does it happen that someone who does not fully explain his purpose asks for the cost of Product A and Product B and from this informatiton draws specific and, perhaps, erroneous conclusions? How often would the costs of Product A and Product B be rewritten to remove from these costs the vagaries that are no proper part of a prospective comparative cost if the particular purpose for which the specific information was to be used was known? Perhaps Product A is made in several ways and, if a comparison is made before the cost data are thoroughly analyzed, the idiosyncracies of some schedule clerk may well be the occasion of an incorrect decision.

Filtering Irrelevant Costs

Incidentally, it should be noted that the question of standard cost versus normal cost versus actual cost is not touched upon in this discussion. It is true that, depending upon the type of cost system involved in a particular installation, the problem of filtering out irrelevant factors is greater or smaller, but regardless of the type of cost system in use some filtering is frequently called for. It might well be mentioned in passing, however, that the term "actual cost," though in common use, is pretty difficult to define if actual cost is presumed to be any very exact figure. This follows from the fact that so many cost factors are assigned to particular products on so many more or less arbitrary bases that no two people acting independently would ever come up with the same answer, and if current month's expenses are included in this so-called

"actual cost," there are still more "vagaries" in the cost computation.

Differential Costs

There are many questions arising in the ordinary course of business, however, that require the calculation of cost figures based upon entirely different basic assumptions than those used ordinarily in either prospective of retrospective costs, and for purposes of illustration it is worthwhile to consider a few of these examples.

Perhaps the special question most often asked of the cost department is, "What will be the unit cost of increasing production beyond present levels?" The problem is to contrast the incremental or differential cost of the added output with the selling price that might be obtained for the additional product. This requires that we review all of our cost elements to determine what portion, if any, of each element is fixed under the conditions contemplated and what portion is variable. Once this has been determined the unit cost of the additional output is relatively easy to calculate. A study such as this is most easily made by looking, first, at the total expenditures for the production unit, i.e., the plant or department, and then studying how they will vary under the assumed conditions, examining and estimating total expenditures for every item of cost, and then subtracting the current operating expenditures from the total so estimated. The cost difference is the added cost of the additional output and forms the basic information necessary to answer the question. This is the out-of-pocket cost study so often made.

Cost and Price in Case of Shutdown

Still another type of question might be considered, however, under which different assumptions will apply. It may be assumed that the business is confronted with a possibility of temporary shutdown, and a question is raised as to the minimum price at which the product might be sold rather than standing losses incident to such shutdown. Would it be the out-of-pocket figure derived in the previous problem or would it be something lower? If management considers that it has a certain investment in the training of its active employees, which would be lost in the event of temporary shutdown, then a lower figure might well be deter-

mined upon as the differential cost of production under these circumstances. It might be still lower if it were felt that there were certain employees, ordinarily counted in the variable expense group, who should be retained as a nucleus in the event of shutdown.

Abandoning Part of Plant Output

While this is being discussed, it might be worth while to consider the figures that might be determined upon as cost if the question arose as to the advisability of abandoning part of the output of a plant. Obviously, under this set of circumstances, the question of depreciation disappears since it must be recognized that depreciation has already occurred, except to the extent that the plant may have salvage value. Investment, consequently, has practically disappeared except for the value of the land and buildings for other purposes, so the question of return on investment in these fixed facilities may be forgotten. There would, however, be certain fixed expenses relating to the standby organization which now would have to be considered as a part of the cost of product produced. In addition, return on investment in inventories, accounts receivable, etc., would have to be taken into account in some manner. Doubtless, the figure determined upon under these circumstances would be considerably higher than the out-of-pocket figure developed under the conditions outlined in the first situation discussed.

Cost of Side Lines and Change-Overs

Still another problem might be considered as illustrative of the necessity for an open-minded approach to the question of cost determination. Suppose a company is manufacturing a product and it is proposed to introduce a side line into the factory. The cost to make this side line would be the additional cost of operating the entire business by reason of its introduction, and it would depend in large part upon the manner in which the side line would utilize spare time and machinery and even out production schedules. It is possible that the cost to add the side line would be considerably different from the out-of-pocket cost of manufacturing the side line separately.

Another and very common problem involves the advisability of

a change-over in production methods. To obtain the correct answer, it is necessary to determine costs with present equipment and contrast them with estimated costs with the proposed equipment, looking carefully to the assumptions pertaining to production volume in both cases, and then measuring the saving against the new investment required. Depreciation should have no part in such a calculation for the saving should be sufficient to amortize the new investment in a reasonable period and, in addition, allow a reasonable return upon such investment if the new equipment is justified. In making such a study, great care must be taken to eliminate irrelevant factors. There have been many formulas suggested for this calculation, but most of them will not stand a very critical review.

Enlarging Plant Capacity

One more set of conditions might be examined, as the answer derived would differ from any mentioned previously. Suppose that a factory is operating to capacity and it is proposed to enlarge it. Immediately, the conception of fixed expense, which has been used in most of the previous examples, changes because an enlarged plant contemplates greater standby expense. Consequently, the unit cost in the enlarged plant (assuming the same type of productive equipment) will probably be only slightly less than the unit cost in the present plant, but this would be susceptible of measurement.

There are numerous other problems which arise from time to time that require the sort of analytical approach indicated in these examples, the answers to which are easy to describe but difficult to determine, and too often, the conventional cost figure is looked to for the answer. It should be noted that the approach in each of these instances has not been a study of unit cost but rather a careful estimate of ***variations in total expenditures*** under the assumed conditions.

It would be most desirable if the people supplying the figures could require that all requests for cost information be made in writing and that the purpose for which the figures are intended be so set forth. If this could be done, the proper assumptions could be made, and the figures supplied would far better suit the purpose for which they may be required.

Return on Investment

A word or two should be said, before concluding, about the old, old problem of interest as a cost. Outside of the economics books, in which interest on investment is considered to be part of the total sacrifice, little attention is now given to this factor by the cost accountant. Unfortunately, however, he does not give sufficient attention to return on investment, which is the approach those who choose to eliminate interest as a cost element should follow. It is safe to say that in most profit and loss analyses no effort is made to assign investment in plant and inventories to lines of product, yet no consideration of net profit is complete unless it is related to the investment required to produce it. In the past twenty-five years, greater mechanization has come to many businesses, and investment in fixed assets has gone up materially. In some lines of business the result has been a decrease in capital turnover, and yet management sometimes wonders why the same, or higher, sales margin now produces a less satisfactory return on capital investment than was formerly the case. Suppose, for example, that fifteen years ago, with a million dollars in plant, product having a value of three million per year was sold with a 10 per cent margin to sales. This would have amounted to 30 per cent on investment in plant. Now, it may be assumed that the plant is more heavily mechanized and the investment has increased to two million dollars. With this investment it may also be assumed that product having a value of four million dollars is sold each year. It may be assumed further that because of savings in labor the company now has a 12 per cent margin to sales. The firm now earns $480,000 on two million dollars' worth of plant, or a 24 per cent return on investment, a reduction of 20 per cent. Working capital considerations have been ignored in this calculation in the interest of simplicity. They should, of course, be considered. Obviously, in spite of a larger sales volume, a larger sales margin, and lower costs, the company is doing less well for its owners than formerly. This is because capital turnover has been reduced, a most important factor frequently given too little consideration.

These brief considerations will have served their purpose if they suggest the advisability of taking a second look at conventional cost data. They may also bring into clearer focus some other

uses of the cost department in the business and suggest perhaps that it may be the source of information other than the cost of what was produced last month.

ACCOUNTING SERVICE TO MANAGEMENT

By George W. Rooney, Vice President-Comptroller, United States Steel Corp. of Delaware, Pittsburgh, Pa.

THE United States Steel Corporation is an organization comprising many businesses. In addition to the several steel-producing companies which are engaged in making steel products of a multitude of specifications, there are involved coal and ore mining companies, shipbuilding, fabricating, oil well equipment, export, and cement companies. Each of these companies has a top management whose problems are many and varied. These are the men with whom we as accountants must work, and these are the problems with which we must be concerned.

It is neither possible nor desirable to get down to infinite detail with top management. It is only possible to deal with these executives on a broad basis. That is my interest in your program, and I can assure you that it is necessary for all supervisory accountants to raise their sights above detail problems and to think about and participate in executive problems. We must view all problems primarily from the standpoint of management, relegating to secondary importance what may be termed accounting technicalities. This means that the accountant must acquire a general working knowledge of all phases of the business and view all transactions as an unbiased financial executive. It is not always easy to put into the background years of thinking directed primarily toward profit and loss statements, balance sheets, etc., but it must be done if the proper perspective is to be attained.

You may think that top executives, because of their experience, are quite capable of taking the accountant's figures and using them without assistance from the accountant. This is not true. They are capable, but that does not mean they do not need assistance nor that they do not seek it. I know they need the assistance you have to offer, and if your analytical programs are properly developed, they will come to you for more and more help. This need for in-

creased service is so urgent and so pressing that it is a constant challenge to all of us to do a better job.

I should like to discuss some of the things that must be considered in the endeavor to attain our objectives, realizing, of course, that we can only hope to point out briefly, in this short period, some of the many phases that require our best thought and effort.

Aim of Business Activity

In general, what is business? It is the investment of the earnings and savings of many people to perform a function or manufacture a product for others who need the service or product. Earnings and savings are invested to obtain one major result, that is, to make a reasonable return on the investment. This is known as profit. It is the final line of the profit and loss statement that indicates the profit. In other words, all the effort that goes into the business must participate in the final result. Therefore all transactions and all problems resolve themselves into a profit and loss result. This covers sales, operations, industrial relations, accounting, and all other divisions of the company. Profits can be made only when the cost to perform a function is less than the return obtained from the function. This means figures, and figures lead to the accountant. If you can visualize and retain this perspective, you have taken the first step in really equipping yourself to assist management.

Accounting service to management has, in my opinion, been too limited and too restricted and has not been fully understood. We are partly to blame for this condition, because we have not offered the necessary help, nor have we really displayed what we can do to help them with their problems of running the business. They are to blame for not always informing the accountant what their plans, their thoughts, and their wants are. I know this to be a fact, because in my dealings with top management, many of the problems which I have encountered could have been solved more readily, or at least simplified, if the accountant had been brought into the picture at the inception of the problem and made conversant with what they were thinking and what they faced.

Did you ever stop to consider that the president of a company cannot possibly have complete knowledge on all matters? How does he work? He obtains the salient facts from various sources,

and with these in front of him, he develops his policies and makes his decisions. Let us consider some of these salient facts from an accounting viewpoint. It is not possible to set down categorically everything that is involved because of the many factors such as type of organization, personalities, nature of business, etc., but I think we can discuss some facts that have application to all businesses, whether large or small.

Let us consider the part the operating man plays in this picture, the man who is responsible for producing the articles to be sold. Here is an official who is confronted with a multiude of problems. He must assemble the tools, the materials, and labor. He must meet promises to customers, schedule his plant, contend with absenteeism, work stoppages, incentive plans, wage scales, industrial relations, development of new methods, improvement in quality of product, and train his supervisors. There are literally thousands of things with which he must contend and, above all, he must produce at the lowest possible cost. Many of these operators are engineers or men who "grew up" in the plant. Very few are accountants, and yet they are responsible for one of the most important activities in a business in which figures are invaluable. I think you will all agree that the accountant in all cases has not given this function of the business the assistance it needs.

Costs and Cost Control

From the accounting standpoint, executives at the manufacturing plants are interested in costs and cost control. They need help in controlling costs through the use of figures presented on a basis which indicates the extent to which they are meeting their cost responsibility. Keeping payroll or production or inventory records does not control costs. These are necessary functions of an accounting department but are not the figures that an operating executive needs. The questions most frequently asked me have to do with costs and cost controls. How much does a certain specification of steel cost per ton? What are the component parts of the cost? Why is it out of line cost-wise with a similar specification? If the volume of production should decrease 10 per cent or 20 per cent, what would the costs be? How can you arrange the accounting work so that we can compare the actual costs of individual parts of a manufacturing process with the estimated or standard

costs? Why do we have to wait until the end of the month for information when we need to know day by day the vital facts about our production? Why can't you develop accountants who not only know accounting but can develop an understanding of our operating problems, and then interpret the figures? Is it possible to eliminate the myriad details that the accountants show us and select the points that mean something?

These questions come in a constant stream from all top executives. They want to know the facts behind the figures. We keep the records. It is up to us to service them on an executive basis instead of a bookkeeping basis. We should learn something from the questions which come from top management. The fact that they are asked indicates some confidence in our ability to meet the requirements. We must intelligently develop and plan accounting procedures that not only follow sound accounting principles, but also present the facts currently, with analyses and interpretations, so that the operator can use the data to the end of helping to produce the desired product at the lowest possible cost.

Improving Cost Reports

I do not propose to outline how to do this, nor to present all my thoughts in that connection. However, I should like to recommend the following for your consideration:

1. Keep the large volume of detail and accounting requirements in the background. This is necessary accounting work but is only confusing to operating management.
2. Develop a system of daily control by vital cost factors, and in such a way that actual results can be compared with expected results.
3. Do not furnish "cold" figures for someone else to try to analyze. The operators have many other matters to attend to, and "cold" figures do not always get attention. Interpret and analyze the figures for them so that their interest is aroused and the figures mean something to them.
4. Lay the *facts* on the table. Facts are sometimes disagreeable, but, in the long run, the accountant will command greater respect if he presents the real facts without equivocation or ambiguity.

5. Do not hesitate to make suggestions. Remember we have the facts developed from the figures, and we are in a position to assist management through making suggestions.
6. Present your figures in the language the operator talks and thinks.
7. Get your accounting men as close as possible to the operators. They should work together as one team, not as two separate teams.
8. Select your accounting men carefully so that they will develop in stature with the operators. We need more than just good clerks.
9. Don't forget that you have an important place in business; maintain that position, or you become only a record keeper.

Industrial Engineer and Cost Control

The industrial engineering phase of cost control is highly important and should provoke thinking on your part. I believe it will result in a clearer perspective and will lead to more intelligent assistance to management. I have learned through experience that the industrial engineer can be of invaluable assistance to the accountant. I now have several industrial engineers on my staff, not to take the place of an industrial engineering department, but to supplement our accounting activity. I find that a much better job can be done for top management because of this industrial engineering assistance. I would urge accounting executives, where the business is large enough, to include an industrial engineer in their cost and statistical department; and in the smaller business, a very close working arrangement should be maintained with the industrial engineering department.

Industrial engineers, by training and experience, understand and can break down the many activities that go into a manufacturing process, such as number of men in a crew, man hours, machine hours, speeds of machines, product output per hour, amount of scrap, fuel requirements, delay statistics, etc. Each activity has a cost, and if the cost is not properly broken down into its component parts, many leaks develop that may go unnoticed. These

are the things the operators know that the technical accountant does not, as a rule, clearly understand. An industrial engineer and an accountant working in close harmony can accomplish the best possible results in developing vital and useful information for top management. The industrial engineer and the accountant complement each other. The industrial engineer is important with respect to special cost studies, and he adds considerably to the accountant's understanding of operations.

Operating executives, because of their extreme interest in cost control, have, for a number of years, availed themselves of the services of industrial engineers to study and analyze operations so that the best and most economical methods might be developed. These industrial engineers deal with tangible quantitative factors which are necessary if good operating performance is to be attained for a given operation. The language of the operator and the industrial engineer is similar; both deal with quantities of tangible things that go to make up an operation. In many cases, neither the accountant nor the industrial engineer has taken full advantage of what each has to offer in attaining cost control. They have not worked at cross-purposes, but their work has not been closely coordinated, neither one having made the effort to understand fully what the other was doing. The accountant felt that the records as to quantities based on time studies and other factors, and often reflected in mathematical formulas, were too involved to be of much use to him. On the other hand, some industrial engineers were prone to adhere strictly to their reports of quantities and call on the accountant only for certain figures, without any explanation as to how the figures were to be used. To associate their records with figures developed by the accountant appeared to be too difficult. Thus, in too many instances, the accountant and the industrial enginer did not fully integrate their efforts. I know that enlightened accountants and industrial engineers are realizing more and more that standards of measurement, as developed by the industrial engineer, cannot be used to their fullest extent unless they are tied in, step by step, with the accounting records.

Opinions may differ as to organizational setup with respect to industrial engineers and accountants, but I believe everyone will agree that the proper functioning and collaboration of these two activities will result in increased service and assistance to man-

agement. Top management's questions are such that answers can be provided only by having the two activities closely tied together. Full consideration must be given to this point if we, as accountants, are going to do a better job.

Costs for Departmental Executives

I have referred frequently to top management, but let us not forget the other levels of management. I have in mind the departmental supervisors, plant superintendents, etc. These men are the "lieutenants" on whom top management must depend to do a good, sound, economical job. Unless you furnish proper accounting information to them, you are not fully assisting management. These are the men on the "firing line." They need logical and intelligent cost control information, they need it fast, and they need your help to analyze and interpret it. We in the accounting profession must meet this demand. The information they need is the same as that needed by top management, but perhaps in more detail, as it will deal with those factors intimately associated with a specific department. Such detail would not have the same application for one in top management controlling the entire business. In short, it is necessary to fit the information to the requirements of the situation.

Expediting Cost Reports

Current figures do not have application in the plant only. There is a very definite need for prompt informatiton in the main office. It has been my experience that the final results for each month are usually presented at a date considerably later in the succeeding month. Anyone in a progressive management must feel the futility of the situation when he first learns on the twentieth or twenty-fifth of the succeeding month what he should have known by the third or fourth of that month. This is serious. It has the effect on management of leaving them with a "let-down" feeling and a consequent turning away from the accountant as a source of day-to-day information. Management then must operate the business without the benefit of current information, and the accounting information, when it is furnished, is received without the enthusiasm or expectancy that should attend such matters.

Would you be satisfied to know your cash balance sometime in

the succeeding month rather than currently? I do not think you would tolerate such a condition. Suppose you did not have a filing system, and you could not immediately refer to those matters that affect the conduct of the business, such as correspondence, customers' orders, etc.? I imagine you would remedy that rather quickly. Then why should we be satisfied to furnish cost information or financial statements late in the following month? Are they not as important as, for example, cash balances? Think this over if you really desire to help management. Give thought to daily control of costs, orders, production, shipments, etc. Consider the possibility of telling management during the month where the company stands profit-and-loss-wise. They need this kind of information, but many in management positions have the idea that this is impossible because their accountants have not, in the past, given them this information and have not indicated that it can be done.

Accounting by Causes

Accounting by causes has particular interest for me. This is a highly technical subject, and it seems to me to present a field of thought and development which should be of far-reaching importance to the accounting profession and to management. I can visualize that an operating statement or a statement of sales and profits, presented in straight accounting form, by card of accounts or by product code, may not readily convey to the recipient the importance of the information. A card of accounts is an accounting device to classify transactions. It follows the long-accepted terminology which accountants use and which has some meaning. But in many respects, it is somewhat similar to many published financial statements, a series of names and amounts which convey little beyond the figures to the reader. I do say that the card of accounts and product codes are extremely important and must be maintained, but I also recognize that accountants can convey more information in a more understandable fashion if they can develop the "causes" as well as the "accounts." You may say that the "causes" are covered by footnotes to statements, or by separate analyses explaining fluctuations. But if I understand the subject, the thinking goes beyond that. As I understand it, the theory is, that if you had good performance or poor performance, it was the result of something, or was "caused" by something. These

"causes" or reasons would, through an accounting procedure, be isolated and evaluated so as to present accurately the value of the cause for good or poor performance.

Perhaps I can use a simple illustration. Suppose a drill press is expected to produce 480 articles in an eight-hour turn. The cost of running the machine, including labor, power, repairs, etc., is $4 an hour. Now assume the production on this machine during an eight-hour turn is 300 pieces. What caused the lower production, and how much did those "causes" cost? To start with, some of the reasons may have been due to machine breakdown, material being placed at the machine off schedule, power failure, running machine at lower speed than specified, etc. If we assume machine breakdown was the cause, then it could be determined that the lost production resulted in a loss of three hours' operating time, which is evaluated at 3 (hours) x $4, or $12. So instead of having a general explanation as to why results were not up to expectations, we have a specific "cause" with the dollar tag attached. This is just a simple illustration and is not to be taken too literally.

The important thing to note is, in handling accounting by "causes," *not* to use accounting language, but the language of the operating people. That is the only way accounting by "causes" can be presented, and by using the language which they understand, with values that they did not think an accountant could incorporate into his system, you will make one of the greatest contributions toward the assistance of management.

Accounting and Financial Uses of Budgets

Budgets and forecasts are an integral part of the accounting and financial system required to run a business. They can be likened to the basic information necessary to maintain a daily control or to develop accounting by causes, or they can be likened to the basic information for a standard cost system. However, I look upon budgets and forecasts more as a financial requirement for management than as merely the basic data used in the detailed accounting system. Budgets and forecasts are vitally important, because they represent the best judgment of what executives think is going to happen in the future, and the data are used to chart management's future course. Budgets and forecasts can comprehend expected volume of sales, new products, new plants, expenses of new

or existing departments, costs, selling prices, profit and loss, etc. To the accountant, they should be a revelation of management's expectations from which he should visualize and gear his accounting requirements. A responsibility falls upon the accountant in connection with budgets and forecasts to the extent that, first, he must furnish reasonably accurate dollar information to apply to the physical considerations, and, second, and most important, he must furnish the actual results on a comparative basis with the budgets and forecasts. If he is progressive, he will go beyond this and furnish the reasons or "causes" for the differences between budget and actual, so that top management may determine whether or not poor performance is the result of a change in the basic business situation or is a result of incompetence, lack of aggressiveness, or any of the other reasons for failure. Good performance, of course, can also be determined in the same manner. The accountant's important duty is to assist management in preparing the budgets and forecasts, and then to "keep alive" the entire program through interesting progress reports and pertinent, specific comments on the causes or fluctuations. The accountant has the figures, and the figures are the "life blood" of budgets and forecasts.

Special Analyses

I should like to mention briefly the subject of special analyses, a function which has not been developed to its full extent in most companies. It is a phase of accounting that can be of invaluable assistance to management. Special analyses can be grouped into two general classifications: cost and financial. It is not necessary to define each classification, because they are generally understood by accountants, and, of course, it is not my purpose to go into accounting details, but to discuss the subject from a management viewpoint. I do not believe that accountants have concentrated on this phase of accounting activity to the extent they should. They have relied too much upon management to make the request for the special analyses wanted. In other words, management may wonder if a certain plant is a profitable venture, or whether a certain product should be continued. Can they afford to replace certain machinery or substitute a new process? Can they afford to improve the quality of a product without an increase in price?

There are many ideas that executives desire to have analyzed. The accountant receives his assignments and prepares the information requested. This is fine and of great assistance to management, but I do not think accountants go far enough. Many questions should come to the accountant's mind, questions that are the result of his intimate knowledge and contact with the figures. He should, of his own initiative, "dig" into these questions, prepare his analyses, and present them to management. The accountant then begins really to participate in the business; he becomes a real part of management's team, and this combination most assuredly pays dividends.

The subjects I have discussed are those in which I feel the greatest progress can be made by the accountant. They are subjects which are broad in scope and thus offer the most fertile fields for the accountant to use his initiative and ingenuity. I am sure you will not get the impression that I think the subjects discussed cover all accounting matters. There are many other phases which are extremely important, but they are of a nature that we have come to accept as commonplace, such as accounts payable and accounts receivable. There are other very important phases that require the services of experts but whose scope is not so broad as the subjects discussed. I have in mind such activities as taxes, auditing, procedures, etc. It takes all of these to make up a fully integrated accounting department. It is not generally realized by those outside the accounting profession how important and how varied it is. Most people seem to feel that it is up to the accountant to keep the books, without realizing the comprehensiveness of the work and the extensiveness of the accounting organization in a large company.

Accounting Personnel

The size of the accounting organization and the personnel involved are determined by the size and nature of the business. However, there are some rules that apply to all organizations, large or small. First, careful attention should be given to the responsibilities to be attached to each job. The responsibilities and scope of the job should then be made clear to the individual who occupies the key position. Organizational lines must be properly set so that smooth functioning of the group will result. Second, stress should

be placed on the initiative that is expected from everyone; that is, while discipline must be observed and maintained, there is no reason to submerge the initiative of the individual. Each one should be impressed with the fact that his job is important, and he should have pride in its execution. Third, and most important, the accountant should realize that good morale is one of the most powerful constructive forces, and everything reasonable must be done to maintain it. Fair treatment, timely promotions, reasonable compensation, and commendation for a job well done will maintain morale at a high level. Along with organization are the people who make up the organization. The best organization in the world will not function if the right people are not placed in the right jobs. Keep in mind that the organization and its people are your team. To have a good team, it is not necessary to have all stars. A good leader and a cooperative team are what are needed to do all the things that are and will be required of an accounting department.

Conclusions

From management's viewpoint the accountant can and should do many things in order to render maximum service to management. My viewpoint is through the eyes of an accountant and constitutes what I, as an accountant, would strive for to bring about this result.

It is management's job to run the business. The executives should be hard-hitting and aggressive to be successful. They are usually pressed for time. Do not expect them to lead you by the hand for what they want. If you are to become part of management through your assistance, you must share the burden by standing on your own feet and progressing through your own initiative. Play the game this way, and you will do your part and leave little to be desired from the accountant. Get your leads from management and develop them; and furnish leads to management to assist them in doing a better job.

CUSTOMERS' BILLING IN AN ELECTRIC UTILITY

**By John D. Elliott, Assistant Supervisor,
Customers' Accounts Department,
The Detroit Edison Company,
Detroit, Mich.**

UTILITIES are continually endeavoring to find a more efficient and simplified method of billing their accounts. The cost of billing is a sizable operating expense due to the volume of bills that must be prepared and the relatively small amount of each bill rendered on the majority of residential accounts. In general, the utilities are taking advantage of the volume of accounts in establishing mass-production methods which have greatly minimized the cost and inaccuracies of old longhand methods.

Special Billing Problems

The cost of billing an account in an electric utility is increased by the periodic reading of meters located on the customer's premises, but by reading as many meters in one neighborhood on the same day as possible, the cost of meter reading is kept at a minimum. The billing in this type of utility appears simplified as compared with other businesses due to having the same customer for a relatively long period of time, his service requirements seldom changing, and being able to bill a single commodity and large groups of bills frequently being the same amount. However, there are also many requirements not common to all businesses, such as (1) maintaining the meter reading at the previous billing period so as to have it available when the next meter reading is secured to determine the amount of use the customer has made of the service, (2) billing an account when it is impossible to gain access to the meter on the customer's premises, (3) the special handling required in setting up and closing accounts and preparing final bills, and (4) the necessity of close scheduling of billing.

The bill for a customer whose meter is scheduled for reading on a certain day must be prepared and regularly delivered to him a specified number of days in advance of the scheduled due date. It is impractical, if not impossible, to bill all accounts at the month end. The work must be distributed evenly throughout the month. A portion of the meters must be read each day, a portion of the ac-

counts billed each day, a portion of the bills mailed or distributed each day, and a portion of the bills must become due each day or every few days, to create an even flow of all types of work. When meter readers are unable to secure a meter reading, the reading is usually estimated, providing the preceding reading was not also estimated, in which case it is necessary to make further efforts to secure an actual reading.

The Detroit Edison Company has recently completed the installation of a new streamlined billing system, adopting some mass-production features by using tabulating cards which flow through a series of machines, gradually accumulating information and producing the bills, like material flowing down a production line in a factory gradually becoming the finished product. Many mechanical features have been introduced, reducing clerical errors and speeding up the billing operation. Our method of billing is one hundred per cent mechanical from the time the meter reader marks the meter reading on a card until the bill is ready for mailing, except for certain visual checking operations to assure neatness and absolute accuracy. It was necessary for this company to do a considerable amount of pioneering in developing its present system which embraces several new features that have not yet been adopted in the utility field. We now have a modern system and plan to keep it that way by taking advantage of all new developments as they arise.

Size of Job

The Detroit Edison Company has 835,000 customers in an area of 7,587 square miles in Southeastern Michigan serving 345 cities, villages, and townships, including the City of Detroit. The majority of these customers are furnished electric service although gas, water, and steam heating service is provided a small number of customers in certain communities. We normally bill approximately 22,000 bills each working day.

During World War I, as an economy measure and due to the scarcity of help, The Detroit Edison Company decided on a plan of bimonthly meter reading and billing for all residence accounts. This was received so well by its customers, and proved so advantageous to the company, that it was never discontinued. Bimonthly billing has not generally been accepted in the utility field,

but, due to the manpower, gasoline, and transportation shortages during World War II, some companies adopted the practice of multimonthly meter reading and billing. Still others chose to conserve in meter reading only by estimating intervening bills, so that customers would continue to receive a bill every month. Many utilities, realizing the savings to be made in multimonthly meter reading and billing, will undoubtedly continue the practice as this company did after World War I.

Basic Records

The following brief outline of the punched-card method of billing in this company brings out the mechanical features without mentioning the details in relation to them. The customer's ledger record and bill are the size of a tabulating card and are made up from two other forms of tabulating cards maintained for each customer. All these tabulating cards are 7⅜ by 3¼ inches, into which holes are punched similar to those in a player piano roll. These cards are fed through machines which sense the data punched therein by making electrical contacts through these holes, thereby actuating the various machines to sort, add, subtract, multiply, divide, print, interpret, merge, match, separate, reproduce the holes from one card to another, or a combination of any of these operations. The two cards that print the bills are (1) a "name and address card" (Exhibit 1) which is a punched card used in addressing the customer's bill and office records, and (2) a "ledger record card" (Exhibit 2) which contains the customer's billing information and from which the billing data are printed on the bill. This latter card is also used after billing as a source of billing information in answering inquiries and is the record to which the customer's payments are posted. These two cards each contain common information pertaining to the customer's account such as the number of the control unit in which the account is maintained, the account number therein, rate, tax status, etc. The name and address and a "meter reading record card" (Exhibits 3 and 4), not heretofore mentioned but used to provide a continuous record of the customer's meter readings, are permanent records. A new ledger record card is reproduced after each billing of an account and contains available information to be used for the next billing

EXHIBIT 1—NAME AND ADDRESS CARD

EXHIBIT 2—LEDGER RECORD CARD

Exhibit 3—Meter Reading Record Card—Address Side

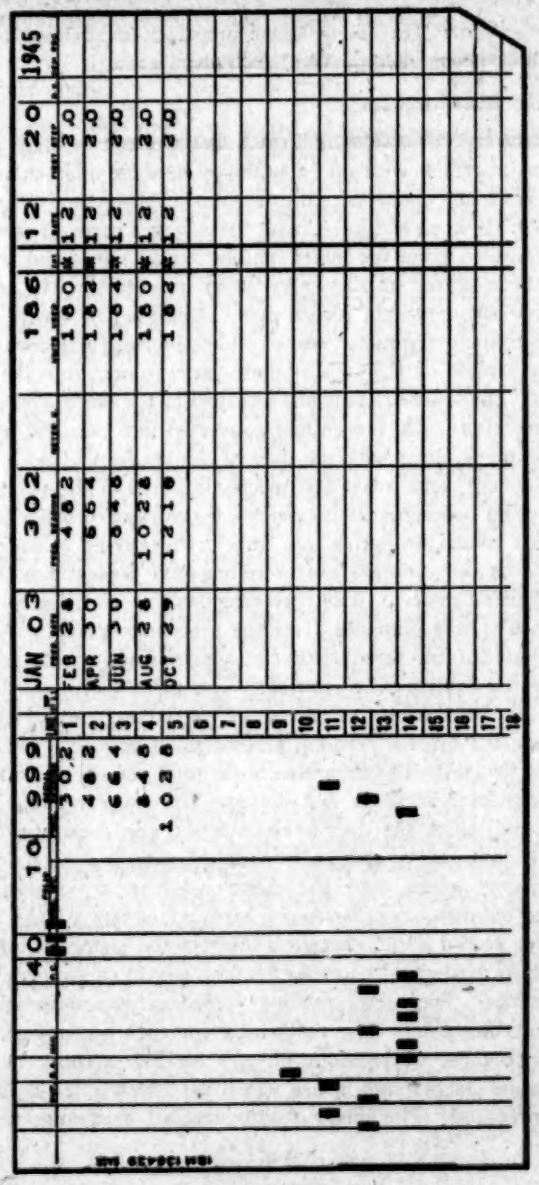

Exhibit 4—Meter Reading Record Card—Billing Information Side

Exhibit 3—Meter Reading Record Card—Address Side

of that account. This card, being prepared in advance for the next billing, is commonly called the "Advance Card."

Recording Meter Readings

The advance cards (Exhibit 2) and the meter reading record cards are interfiled with one another by account number and are so filed from one billing period to the next. At the time the meters for one day's work are to be read, the advance cards are mechanically separated from the meter reading record cards and are carried to the customer's premises by the meter readers. The advance cards now become ledger record cards. Using a pencil with a high graphite content, the meter reader makes marks (or draws lines) in boxes printed on the face of these cards to designate the meter readings. The marked cards are returned to the office where these marks are electrically sensed and converted into punched holes in the same cards along with the date of the reading. This is called "mark sensing" and is the first mechanical step of the billing procedure. The pencil marks are sensed by pairs of brushes passing over each mark through which an electric circuit is completed. These cards now contain the preceding and present readings of the customer's meter. (The preceding reading was set up in the card when it was prepared after the preceding billing.) A day's work is divided into three batches of approximately 7,000 accounts each for the subsequent operations. The cards then pass through another machine which subtracts the preceding reading on each card from the present reading, automatically punching the difference into the card. The difference is the total number of units used by the customer since the last billing. The meter reading record cards, from which the then advance cards were separated before meter reading, are mechanically matched with what are now the ledger record cards, and the meter readings are mechanically posted to the meter reading record cards (Exhibits 3 and 4) from the ledger record cards, thereby adding to the historical information already posted to the meter reading record cards after previous readings. The meter reading record cards are visually examined at this point. The units used for each account are compared with those of previous billings for that account to detect any unusual fluctuations in use which are investigated before the bill is prepared. The meter reading record cards are then re-

turned to the file where they are used in answering customer inquiries.

Sorting and Rating

The ledger record cards are sorted according to the number of units used so that all cards for customers who consumed the same number of units since the last billing are brought together. A master rate card is mechanically inserted in front of each group of cards containing the same number of units used. The correct amounts of the gross and net bill are mechanically reproduced from the master rate card into the following ledger record cards for the same number of units used. The ledger record cards are then mechanically listed on proof tapes showing all the billing information in the cards, and a manual check to assure accuracy further is applied. The ledger record cards are then mechanically sorted to ledger and account number order, and a billing register is listed for reference purposes. "Summary" tabulating cards are automatically produced as the billing register is listed showing the totals of: number of accounts, units used, and billing amounts according to rate and tax exemption classifications for each unit of control. These summary cards, a by-product of the billing procedure, are used to accumulate earnings and tax data and to set up the debit to an accounts receivable control which is maintained for future balancing purposes. The ledger record cards now contain all the necessary billing data and are ready to be used for the actual operations of preparing bills.

Billing

Punched holes representing, among other things, the customers' account numbers, reading dates, and due date are mechanically reproduced into the coupon and stub portions of the blank bill forms from the ledger record cards. The holes in the coupons are ultimately utilized to mechanically sort the coupons to the proper sequence when returned from the customers with their payments. The customer's bill including the stub portion which is later removed (Exhibit 5) is the same size, although heavier in weight of paper, as the tabulating cards.

The bill forms and ledger record cards are now passed through a machine which prints the billing information on the billing side

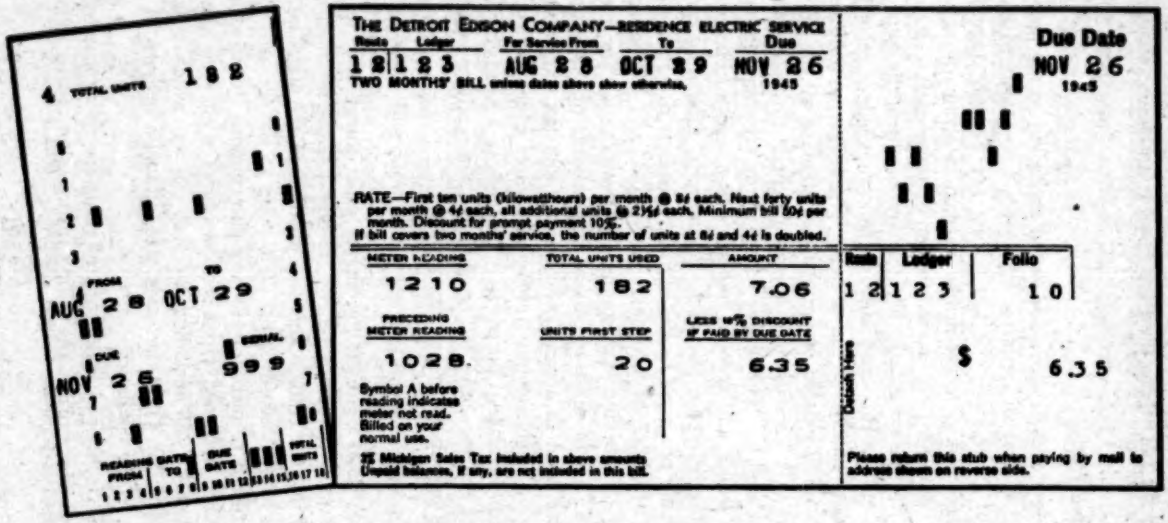
4 TOTAL UNITS 182
FROM AUG 28 TO OCT 29
DUE NOV 26
SERIAL 999
READING DATES FROM TO
DUE DATE
TOTAL UNITS
THE DETROIT EDISON COMPANY—RESIDENCE ELECTRIC SERVICE
Route 12 Ledger 123
For Service From AUG 28
To OCT 29
Due NOV 26 1945
TWO MONTHS' BILL unless dates above show otherwise.
RATE—First ten units (kilowatthours) per month @ 8¢ each. Next forty units per month @ 4¢ each, all additional units @ 2½¢ each. Minimum bill 50¢ per month. Discount for prompt payment 10%.
If bill covers two months' service, the number of units at 8¢ and 4¢ is doubled.
METER READING 1210
PRECEDING METER READING 1028
Symbol A before reading indicates meter not read. Billed on your normal use.
TOTAL UNITS USED 182
UNITS FIRST STEP 20
AMOUNT 7.06
LESS 10% DISCOUNT IF PAID BY DUE DATE 6.35
3% Michigan Sales Tax included in above amounts
Unpaid balances, if any, are not included in this bill.
Due Date NOV 26 1945
Route 12 Ledger 123 Folio 10
Detach Here
$ 6.35
Please return this stub when paying by mail to address shown on reverse side.

EXHIBIT 5—CUSTOMER'S BILL—BILLING SIDE

of the bill forms (Exhibit 5). The billing information printed on each form is for the customer whose account number was reproduced into the same form. The bill forms then pass through a machine which reads the holes punched in the bill form to print the reading dates, due date, etc., across the top of the billing side of the bill. Making further use of the holes punched in the bill forms, the bills are mechanically matched with the name and address cards,

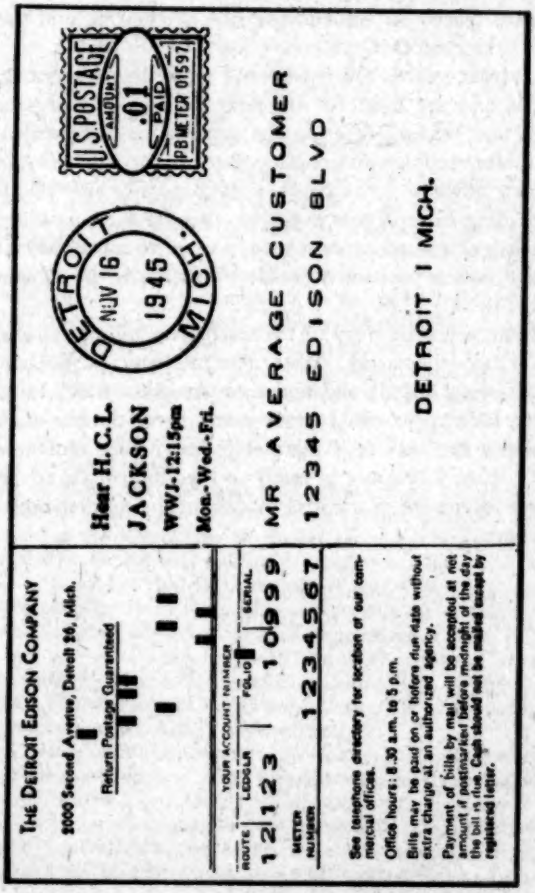
THE DETROIT EDISON COMPANY
2000 Second Avenue, Detroit 26, Mich.
Return Postage Guaranteed
Hear H.C.L. JACKSON WWJ-12:15pm Mon.-Wed.-Fri.
DETROIT NOV 16 1945 MICH.
U.S. POSTAGE AMOUNT .01 PAID PBMETER 01597
YOUR ACCOUNT NUMBER
ROUTE 12 | LEDGER 123 | FOLIO | SERIAL 10999
METER NUMBER 1234567
MR AVERAGE CUSTOMER
12345 EDISON BLVD
DETROIT 1 MICH.
See telephone directory for location of our commercial offices.
Office hours: 8:30 a.m. to 5 p.m.
Bills may be paid on or before due date without extra charge at an authorized agency.
Payment of bills by mail will be accepted at net amount if postmarked before midnight of the day the bill is due. Cash should not be mailed except by registered letter.

EXHIBIT 6—CUSTOMER'S BILL—ADDRESS SIDE

and the customers' names and addresses are printed on the address side of the bills (Exhibit 6). The bills then receive a visual check to further assure accuracy.

Final Processing

The stub portion of the bill, which is of no further value, is then cut from the rest of the bill, thereby reducing it to post card size (Exhibit 6). The postal impression and postal zone number, if any, are placed on the address side of the bill, and the bill is mailed to the customer.

New advance cards are reproduced from the present ledger record cards and are used for the next billing. The present meter readings and reading dates in the current cards become the preceding meter readings and reading dates in the new advance cards. These new advance cards are then mechanically interfiled with the meter reading record cards in preparation for the next billing. The present ledger record cards are forwarded to an unpaid file to be withdrawn when payment is made. This file is the Accounts Receivable File.

This completes the story of the mechanical billing routine in The Detroit Edison Company. With new mechanical office equipment on the drawing boards and under construction which is adaptable to utility billing, we can foresee many revolutionary changes yet to be made that will lend themselves to further economies. The Detroit Edison Company is ready to take immediate advantage of this new equipment when it is placed on the market now that the war is over.

OUR OPEN FORUM

Accounting Procedure for Incoming Material

Editor, N. A. C. A. Bulletin:

I would like to make the following comments on the article appearing in the September *N. A. C. A. Bulletin* by Mr. Anderson on "Accounting Procedure for Control of Incoming Material."

Mr. Anderson shows the distribution of receiving reports to the following departments:

1. Material audit department.
2. Planning or production department.
3. Receiving and inspection.
4. Purchasing.
5. To the person receiving the material.

Although Mr. Anderson does show a copy of the receiving report going to the person receiving the material, I think a copy of the receiving report should go to the stores division and the cost department. If the stores division is directly under the control of the cost department, the copy should go to the cost department only. After the cost division has made proper notations, their copy should be forwarded on to the traffic department for check on freight charges and for posting freight bill notations on the receiving records as a control for freight paid on materials received.

Mr. Anderson also states that after the invoice is matched with the purchase order and receiving records, the invoices are then checked for extensions and totaled, and any discrepancies are taken care of. The invoices are then processed by the accounts payable department for recording of discount items and payment schedule.

It is my opinion that at the time an invoice is brought in from the vendor, the payment date should be put on the invoice, rather than later on. By this method, the invoice would then be cleared according to date of payment. You can readily see that in processing a tremendous volume of invoices you may hold back and not clear invoices that are due, we will say, on the 10th of the month, but you may clear some invoices that are due on the 25th of the month. In other words, in our own setup, invoices come in from the vendors and are immediately coded by pay date, and from there on the process is about the same as Mr. Anderson's, except that we give preference to pay dates, although we make it a strong point to get all invoices posted in the proper month to which they are applicable.

He also states that in the event of a discrepancy in weight or count on the part of the vendor a debit or credit memo is requested from the billing department. This item, I feel, should be handled directly by accounts payable by the use of the accounts payable debit memo, rather than put through the billing department which in turn would create an accounts receivable, whereas this actually is an accounts payable debit memo handling. I also wish

to state that Mr. Anderson's article has been very clearly presented, and that he has from our own case offered me some very good suggestions and some corrections which will help us in our own division.

M. E. Zaveson,
Akron Chapter.

Editor, N. A. C. A. Bulletin:

I enjoyed reading Mr. Anderson's article in the September 1 *Bulletin* on "Procedure for Control of Incoming Material." However, there are a few points which I would like to discuss.

In case material received is to be returned, after invoice for the material has been compared with purchase order and entered, a good check is to enter the number of the return paper and debit number on purchase order. For a later cross reference when a replace purchase order is issued, the replace number should be entered on the original order.

Mr. Anderson suggests that if a debit or credit memorandum is to be issued, it is requested from the billing department. This sounds like making a job difficult. The accounts payable and accounts receivable departments are two separate departments and should not be given jobs outside their sphere. If the payment for the material is to be made from the accounts payable department, then, it seems to me, the easiest adjustment can be made by that department on the next check to vendor.

In one paragraph Mr. Anderson suggests that debits or credits should be issued for errors in price. He is not clear whether this is done after invoice has been passed or at time of passing. If these extensions or errors are found at time of receipt of invoice, the matter could be adjusted by a change notice. This change notice would accompany the next check on which the invoice is paid with full explanation for difference between check and original invoice.

Mr. Anderson suggests that copies of debit or credit memoranda should accompany remittance. I agree entirely with this procedure. Another suggestion might be to have an extra copy made and sent out immediately as an advance notice, since a check might not be sent until a later date. This would inform vendor immediately of what has happened. If there is need of correction, correspondence can be started immediately.

Francis T. Knouss,
Lehigh Valley Chapter.

Accounting Service to Management

Editor, N. A. C. A. Bulletin:

In the current year the *N. A. C. A. Bulletins* have carried a number of articles bearing on progress and improvement in accounting practices, the close relationship of accounting to management, and particularly stressing the responsibility of the accountant.

At the first meeting of its 1945-46 program Birmingham Chapter listened to a talk given by George W. Rooney, Vice President-Comptroller of the

United States Steel Corporation, on the subject, "Accounting Service to Management." Mr. Rooney's address was in effect a summation of all the things presented in the articles which have appeared in the 1945 *Bulletins*.

I listened to Mr. Rooney's talk with unusual and eager interest born of three angles of thought:

1. From the standpoint of a student—having served an apprenticeship in the study of service to top management when in the employ of the United States Steel Corporation as Comptroller of its Southern Subsidiary, the Tennessee Coal, Iron and Railroad Company of Birmingham.
2. From the standpoint of an accountant, who through years of long experience has learned that he can best serve his management by giving it reasons for results as expressed in the monthly figures of costs, practice, and profits (if any), rather than mere figure reports such as most managements are used to receiving.
3. From the viewpoint of one who is no longer a practicing accountant, but who nevertheless in his daily work with a Price Adjustment Board must determine from accounting figures the amount of profit which, in the light of all the factors to be considered, is fair and equitable for the fiscal period under review.

I may be pardoned if I say that since my whole business life has been spent in accounting work, the opportunity to listen to one who has become the accounting official and representative of the greatest industrial business in the world was both alluring and enthralling. Since space is limited, let me say my only purpose in these brief comments is to emphasize that what Mr. Rooney said about accounting service to management is blood brother to what I have observed in fifteen months' work in determining the fair and equitable profits that contractors engaged in war work are entitled to receive. It all boils down to whether or not the concerns studied had sound accounting guidance. Let us see if what Mr. Rooney said doesn't tie up with my observations. Some of the things he emphasized were:

1. The accountant should learn and know all phases of his business and participate in management's problems.
2. He should learn what the President of a concern needs to run his business right.
3. He must know the problems of the operating men—the superintendent, foremen, industrial, and production engineers.
4. He must know how much a certain product of given specifications actually costs to make.
5. He must know how to show his management if their estimates of cost are borne out in actual practice and, if not, the reasons why.
6. He must keep detail in the background, and instead show his management how to chart and run the right course.
7. He must not give his management figures to be analyzed but in-

stead he must state the results and give an analysis of the reasons and causes for them.

I know a man who now has a high place in industry, who for many years was an accountant. He was a close observer of operations and through the application of figures showing the results he was able to tell his superintendent the cause of results. Through knowing all phases of operations, he constantly made suggestions for improvement. Finally, one day his superintendent called him in and told him he was to be assistant superintendent so that he could put his good ideas into actual practice. A person familiar with this man's achievements once said of him, in speaking of his personal character and ability, "He is not only a man fit to walk with kings, but he knows what to do with three kings when he gets them." That is simply descriptive of an accountant who through service to his management moved into the managership of the business.

After all, I am using Mr. Rooney's talk simply to emphasize what a lifetime of work and more recently fifteen months of close study of operating results of many concerns, have proved; i.e., that without sound accounting guidance and analysis of monthly results, there is no safe track for management to run. Accounting is the compass and rudder of management's craft.

The whole purpose and aim of the National Association of Cost Accountants is to further and widen the value of accounting to business and the vast structure of social and financial economy that we enjoy and love. It is fortunate the Birmingham Chapter could hear Mr. Rooney speak on these things and that his article should be published in this issue of the *Bulletin*, for progress without the aid and application of sound and practical accounting knowledge is impossible of attainment.

NEILL HUTCHINGS,
Birmingham Chapter.

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CATERPILLAR REPORT RECEIVES ANNUAL AWARD

Announcements that the Caterpillar Tractor Company has been given the *Financial World's* award for the best corporate report for 1944 will be received with interest by the many N. A. C. A. friends of William Blackie, Vice President, and William H. Franklin, Controller, of Caterpillar. Readers of the *Bulletin* will recall the article by Mr. Franklin in the issue of September 15, 1944, which forecast some of the major changes in the financial statements contained in the 1944 report. These statements were published in the *Bulletin* for April 15, 1945.

COST CURRENTS

WPB Becomes CPA—Effective as of the close of business on November 3, 1945, the War Production Board will be terminated and its functions transferred to the Civilian Production Administration. The new agency will take over those remaining WPB functions and controls that are required during the transition period of reconversion. It is stated by J. D. Small, Administrator, that the agency "will use its powers to expand the production of materials which are in short supply; limit the use of materials which are still scarce; restrict the accumulation of inventories so as to avoid speculation, hoarding, and unbalanced distribution which would curtail total production; grant priority assistance to break bottlenecks which would impede the reconversion process; facilitate the fulfillment of relief and other essential effort programs; and allocate scarce materials or facilities necessary for the production of low-priced items essential to the continued success of the stabilization program."

Termination and Taxes—The recent issue of the Army-Navy Production Adjustment Bulletin expresses the fear that some contractors may delay filing termination claims in the mistaken belief that settlements are income for tax purposes in the year of settlement rather than the year of termination. It calls attention to the Commissioner of Internal Revenue's mimeograph 5897 which rules that for taxable years ending after July 21, 1944, income and related deductions arising from terminations shall be included in the return for the taxable year of the termination. If the return is filed before settlement has been effected, an estimate should be used with subsequent adjustment in an amendment to the return. The above rule does not apply to termination expenses or losses *incurred subsequent* to the taxable year of termination.

Danger in Not Filing Excess Profits Tax Return—A recent tax court decision (P. Dougherty Co., 5 T.C. No. 96) may be of interest to companies which, because of an absence of profits in excess of the specific exemption, do not file excess profits tax returns. In the above case, the taxpayer omitted filing this return because its income tax return showed a substantial net loss. Subsequently, however, a Treasury examination of the income tax return disclosed a substantial net profit for tax purposes instead of a loss. To the excess profits tax determined on the basis of the revised net income the Department added a 25 per cent penalty for failure to file an excess profits tax return. The Tax Court upheld the Government and said: "A taxpayer's mistaken belief that no return is required under the law does not constitute a reasonable cause for failure to file a return."

Recent Decisions On Allowable Costs Under CPFF Contracts—Following are abstracts of recent decisions of the Comptroller General

concerning the allowability of certain expenditures under cost-plus-a-fixed-fee contracts.

Contributions to Charity

Decision No. B-49786 disallowed as a part of overhead chargeable to a CPFF contract contributions made to the Red Cross, Community Fund, and United War Fund. In this case the contract provided that no overhead expenses of any kind, except as specifically authorized, should be included in the cost of contract work. Contributions were not so authorized, and it was not shown that the expense was reasonably necessary to the performance of the contract. The fact that it may have been the contractor's practice for many years to make such annual contributions and that it believed that such expenditures were a generally recognized cost of doing business in a community cannot be accepted as proof of the necessity of the expenditure in relation to the particular contract.

Excess Transportation Charges

Decision No. B-44733 concerns a contractor who subcontracted all of the work called for in his contract and had the product shipped to his plant for reshipment to destination. The decision disallowed the excess transportation charges resulting from the circuitous routing. The Comptroller General takes the view that the contract contemplated production in the contractor's own plant and not a complete subcontracting of the work and that the expense incurred by the circuitous routing was not reasonably necessary and did not serve the Government's interest.

Carrier's Loss of Government Materials

Decision No. B-49352 concerns a claim for reimbursement for the value of materials which were purchased for use in performance of the contract but which were lost by the carrier in transit from the vendor's plants. The contract provided that title to the materials would pass to the Government at the vendor's plants upon delivery to the carrier. The contractor filed claims against the carrier and was prepared to assign its rights therein to the Government. It was held that the contractor is entitled to reimbursement upon completion of the assignment.

Proration of Vacation Pay

Decision No. B-49110 concerns a claim for reimbursement of a portion of the cost of vacation payments which were made in pursuance to the contractor's regular policy. No question was raised concerning the allowability of such expenditure under the contract. Only the amount was in question. The contractor proposed that the cost be prorated between contract work and other work on the basis of the number of days' service rendered by the employees on the two types of work during the year in which the vacations took place. The decision holds that the proration may be made in the above manner except that the period used must be the twelve

months ending with the vacation period rather than the company's fiscal year during which the vacations occurred.

Cost of Reworking Defective Tools and Materials

Decision No. B-49108 allowed as reimbursable the cost of reworking defective tools and materials received from vendors where the urgency of production schedules did not allow sufficient time for them to be returned to the vendors for rework purposes. The contract authorized a reasonable amount of rework labor cost.

CHAPTER MEETINGS

November, 1945

Chapter / *Meeting Place*	*Date*	*Subject and Speaker*
Akron Portage Hotel	14	*Costs for Different Purposes* Edward J. Hanley, Secretary and Treasurer, Allegheny Ludlum Steel Corp.
Albany DeWitt Clinton Hotel	20	*Budgetary Control* Clinton W. Bennett, Partner, Cooley & Marvin.
Atlanta Atlanta Biltmore Hotel	20	*What Colleges and Universities Are Doing to Advance Industrial Accounting as a Profession* J. C. Burke, Professor of Accounting, University of Georgia.
Baltimore Emerson Hotel	20	*Current Federal Tax Picture* Cyrus B. King, Managing Editor, Prentice-Hall, Inc.
Binghamton	15	*Manufacturing Control* W. E. Crotsley, Director, Dept. of Manufacturing Control Education, International Business Machines Corp.
Birmingham Hotel Thomas Jefferson	20	*Accounting by Causes vs. Accounting by Accounts for Management Assistance* J. B. Copper, Assistant Comptroller, Tennessee Coal, Iron & Railroad Co.
Boston Hotel Vendome	20	*Financial Statements for Management Use* Howard C. Greer, Vice President and General Manager, Kingan & Co.
Bridgeport Stratfield Hotel	15	*Installation of Standard Cost Accounting Procedures* Stanley Z. Bronner, Chief Works Accountant, Bridgeport Brass Co.
Brooklyn Central Branch, Y. M. C. A.	14	*Dividends Through More Effective Financial Statements* Frank Wallace, McKinsey & Co.

Chapter Meeting Place	*Date*	*Subject and Speaker*
Buffalo Church of the Covenant	29	*New Developments in Efficient Office Methods and Procedures* L. E. Isaacson, Office Management Dept. of Main Office, Eastman Kodak Co.
Calumet Hotel Gary	20	*Cost Control in Factory Management* H. C. McCluskey, Treasurer, Kellogg Switchboard & Supply Co.
Cedar Rapids Hotel Roosevelt	14	*From Cost-Plus to Price-Minus* William Blackie, Vice President, Caterpillar Tractor Co.
Chattanooga Hotel Patten	15	*The Control of Material Costs* W. A. Dyer, Combustion Engineering Co.
Chicago The Furniture Club of America	29	*Inventory Control and Valuations* Sam Marsh, Professor of Accounting, Washington University.
Cincinnati Gibson Hotel	15	*Production and Labor Control Through Time Study, With or Without Incentive Payment* C. J. Reed, Chief Cost Accountant, Kirsch Co. (Assisted by B. R. Woodworth and C. H. Cross, Kirsch Co.)
Cleveland The Carter Hotel	15	*Costs for Different Purposes* Edward J. Hanley, Secretary and Treasurer, Allegheny Ludlum Steel Co.
Columbus Hotel Ft. Hayes	19	*Job Evaluation* George E. Meyers, Ernst & Ernst.
Cuba Habana Yacht Club	28	*Some Interesting Aspects of Controls Over Materials* Cesar A. Salas, Vice Dean and Professor of Industrial Accounting and Business Administration, University of Habana.
Dallas Melrose Hotel	16	*Airline Accounting* C. G. Adams, Secretary-Treasurer and Director, Braniff Airways, Inc.
Dayton Van Cleve Hotel	20	*Budgeting—A Necessity for Sound Cost Control* David B. Caminez, Assistant Comptroller, Hyatt Bearings Div., General Motors Corp.
Decatur Decatur Club	22	*Distribution Costs* C. Howard Knapp, Industrial Engineer, Stevenson, Jordan & Harrison.
Denver Cosmopolitan Hotel	20	*Reconverting Industrial Accounting* Mason Smith, Partner, McKinsey, Kearney & Co.
Des Moines Younkers Tea Room	29	*Some Problems of Cost Control* J. Hugh Jackson, Dean, Graduate School of Business, Stanford University *Special Reserves Arising Out of the War* Edward B. Wilcox, Partner, Edward Gore & Co.

Chapter Meeting Place	Date	Subject and Speaker
Detroit Detroit-Leland Hotel	15	*Break-Even Points* Fred V. Gardner, Senior Partner, Fred V. Gardner & Associates.
Erie Moose Club	19	*Budgeting for Postwar Progress* Jesse G. Kline, Chief Cost Accountant, The Atlantic Refining Co.
Evansville McCurdy Hotel	15	*Cost Accounting Fundamentals* H. T. McAnly, Resident Partner, Ernst & Ernst.
Fort Wayne Chamber of Commerce Bldg.	20	*Current Inventory Problems* Benedict M. Sayre, Senior Partner, Benedict M. Sayre & Co.
Grand Rapids The Rowe Hotel	20	*Special Reserves Arising Out of the War* Edward B. Wilcox, Partner, Edward Gore & Co.
Greenwich Hugo's Piccadilly Restaurant, Stamford	20	*Prospective Municipal and State Expenses and Their Cost to Private Business* Jasper McLevy, Mayor, and Perry Rodman, Controller, City of Bridgeport.
Hagerstown Hotel Alexander	15	*Cost Accounting and the Marketing Problems Ahead* Dr. Charles Reitell, Partner, Stevenson, Jordan & Harrison, Inc.
Hampton Roads Albany Restaurant, Norfolk	16	*Financial Statements for Management Use* Howard C. Greer, Vice President and General Manager, Kingan & Co.
Harrisburg Penn-Harris Hotel	13	*Problems Confronting Industrial Accountants* Frank Klein, Vice President and Director of Budgets, Worthington Pump & Machinery Corp. *Costs of Government* Ramsey B. Black, Treasurer, Commonwealth of Pennsylvania.
Hartford Farmington Country Club	20	*Current Status of Contract Termination* Allen Maddren, The Research Institute of America, Inc.
Houston Y. M. C. A.	21	*Current Taxation* Charles H. Draper, C. P. A. and Attorney-at-Law, Butler, Binion, Rice & Cook.
Indianapolis Lincoln Hotel	9	*Recent Developments in Personnel Administration for Office Employees* Howard M. Dirks, Director of Industrial Relations, The Perfect Circle Co.
	28	*Handling Postwar Problems* E. E. Lewis, Management Consultant, Bala-Cynwood.
Jackson Heidelberg Hotel	15	*Cost Accounting for Boat Building Under Wartime Conditions* H. S. Barrett, Assistant Controller, Higgins Industries, Inc.
Jamestown Hotel Jamestown	20	*How Costs Are Being and May Be Used to Control Business Activity* Eric A. Camman, Partner, Peat, Marwick, Mitchell & Co.

Chapter Meeting Place	*Date*	*Subject and Speaker*
Kansas City	19	*Problems of Cost Control* J. Hugh Jackson, Dean, Graduate School of Business, Stanford University.
Lancaster Hotel Brunswick	16	*The Economic Outlook* Wilson E. Wright, Economist and Manager of Commercial Research, Armstrong Cork Co.
Lehigh Valley Elks Club, Bethlehem	23	*Recent Developments in Accounting* Dr. Roy B. Kester, Dean, School of Business, Columbia University.
Los Angeles Scully's Restaurant	20	*The Effect on Industrial Costs of Recent Developments in the Field of State Unemployment Insurance* Pat Merrick, Director, Social Security and Manpower Dept., California State Chamber of Commerce.
Louisville Brown Hotel	20	*A Sound Financial Policy During the Postwar Period* Howard Croll, Manager, Specialized Reporting Div., Dun & Bradstreet.
Maine (State of) Lafayette Hotel, Portland	16	*Work Simplification and Its Application to Industrial Accounting* T. L. Morrison, Assistant Treasurer, Staples Coal Co.
Memphis Hotel Gayoso	21	*Principles of Work Simplification* Nicholas J. Kelly, Ballman-Cummings Furniture Co.
Milwaukee Milwaukee Athletic Club	19	*Current Viewpoints on State and Federal Taxes* Harvey W. Peters, Tax Counsel, Milwaukee.
Minneapolis Curtis Hotel	28	Panel: *Branch Accounting and Control as Related to Distribution Costs* Chairman: Floyd C. Ashley, Secretary-Treasurer, Nash Finch Co.
Muskegon Occidental Hotel	5	*Wage Stabilization Laws* John L. Lovett, Michigan Manufacturer's Association.
	19	*Value of Fixed Property for Insurance Valuation and Federal Tax Purposes* William I. Eastwood, The American Appraisal Co.
Nashville Andrew Jackson Hotel	13	*Control of Material Cost* W. A. Dyer, Auditor, Combustion Engineering Co.
Newark Hotel Robert Treat	15	*Re-establishment of Budgetary Control* Dr. Raymond P. Marple, Assistant Secretary in charge of Technical Service, National Association of Cost Accountants.
New Hampshire Carpenter Hotel, Manchester	20	*A Case Study—Accounting Problems in the Textile Industry* Louis Flomenhoft, Arms Textile Mfg. Co.

Chapter Meeting Place	Date	Subject and Speaker
New Haven Graduates Club	20	*Incentives of the Future* Alan H. Mogensen, Industrial Consultant, New York.
New Orleans Jung Hotel	21	*Current Problems in Presenting Financial Statements* Edward S. Rittler, Moses, Rittler & Dienes.
New York Hotel New Yorker	26	*Can Labor and Management Establish a Cooperative Relationship?* Lawrence A. Appley, Vice President, Vick Chemical Co.
Peoria Jefferson Hotel	21	*Distribution Costs* C. Howard Knapp, Industrial Engineer, Stevenson, Jordan & Harrison, Inc.
Philadelphia Kugler's Chestnut St. Restaurant	15	*Federal Income Taxes, Current Matters* Mark E. Richardson, Partner, Lybrand, Ross Bros. & Montgomery.
Pittsburgh Hotel Fort Pitt	21	*Cost Standards* Charles C. James, Associate Counsellor, Stevenson, Jordan & Harrison, Inc.
Portland Heathman Hotel	20	*Pension Plans and Retirement Trusts* F. A. Drumb, Director of Industrial and Public Relations, Crown Zellerbach Corp.
Providence Narragansett Hotel	19	*The Tax Problem* Honorable Robert L. Doughton, Chairman, House Ways and Means Committee.
Reading The Wyomissing Club	16	*The Accountant's Vital Role in Management* Charles W. Tucker, Comptroller, Childs Co.
Richmond Hotel John Marshall	15	*Financial Statements for Management Use* Howard C. Greer, Vice President and General Manager, Kingan & Co.
Rochester Seneca Hotel	21	*Plant Appraisal and Its Relation to Accounting* A. B. Hossack, Executive Vice President, American Appraisal Co.
Rockford Faust Hotel	15	*Postwar Pricing Policies and Accounting* Mason Smith, Partner, McKinsey, Kearney & Co.
Saginaw Valley Bancroft Hotel	12	*Reports to Management* James H. Barrett, Secretary-Treasurer, The Murray Corp. of America.
St. Louis Coronado Hotel	13	*The Factory Accountant's Place in Management* C. E. Jarchow, Vice President and Comptroller, International Harvester Co.
	27	*Looking Ahead in Property Accounting.* William Y. Armstrong, District Manager, American Appraisal Co.
San Francisco Engineers Club	27	*Postwar Revival of Cost Controls* Barrett F. McFadon, Associate Professor of Accounting, Graduate School of Business, Stanford University.

Chapter Meeting Place	*Date*	*Subject and Speaker*
Scranton Hotel Casey	19	*Selecting and Training the Future Executive* Dr. John J. McNamara, Administrative Co-ordinator, M. & M., Ltd.
South Bend LaSalle Hotel	20	*The Economics of Taxation* Ernest Hahne, Professor of Economics, Northwestern University.
Springfield Hotel Sheraton	21	*Cost Accounting for Laundries* John Carruthers, Senior Partner, John Carruthers & Co.
Syracuse Hotel Syracuse	15	*Incentive Wage Plans and Their Relation to Production Costs* G. W. Hostetter, Industrial Relations Div., National Metal Trades Association.
Toledo Secor Hotel	20	*Recent Tax Developments* C. H. Wideman, Partner, Wideman, Madden, Dolan & Co.
Tri-Cities Hotel Blackhawk, Davenport, Iowa	20	*The Relation Between Public and Industrial Accountants* L. B. McLaughlin, Arthur Young & Co.
Tulsa Mayo Hotel	21	*Problems of Cost Control* J. Hugh Jackson, Dean, Graduate School of Business, Stanford University
Utica Hotel Hamilton	12	*Market Research a Vital Factor in Controlling Distribution Costs* F. A. McGregor, Assistant Manager of Sales, Research, and Development Section, Remington Arms Co.
Wabash Valley Terre Haute House	13	*Problems in the Development of a Small Business* Stanley A. Pressler, Partner, Kerkling & Co.
Washington Hotel 2400	21	*Current Accounting Problems* Harry E. Howell, Assistant Director for Pricing, Purchases Div., Army Service Forces, War Department.
Wichita Broadview Hotel	20	*Problems of Cost Control* J. Hugh Jackson, Dean, Graduate School of Business, Stanford University.
Williamsport Lycoming Hotel	12	*Corporation Income Taxes* Paul D. Seghers, C. P. A., New York.
Worcester Sheraton Hotel	8	*Economics of Full Employment* Malcolm P. McNair, Professor of Marketing, Harvard University, Graduate School of Business Administration.
York Hotel Yorktowne	21	*Accountants' Vital Role in Management* Charles W. Tucker, Comptroller, Childs & Co.
Youngstown Tippecanoe Country Club	21	*Effective Management Reports in the Postwar Period* J. E. Caldwell, Goodyear Aircraft Corp.